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17 October 1951

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DAILY DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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ARMY, DIA, PACOM and USAF review(s) completed.

State Department review completed

TOP SECRET

TOP SECRET

SECTION 1 (SOVIET)

1. USSR. USSR protests Norway's contributions to NATO: A 15 October Soviet note to Norway charges that Norway has violated its treaty commitments to the USSR by in effect making Norwegian territory available to NATO forces. The note accuses Norway of establishing air and naval bases for the use of NATO and transferring Spitsbergen and Bear Island to the Atlantic command. The USSR points out that actual military use of Spitsbergen would be a violation of the multilateral treaty of 1920 forbidding the militarization of those islands and would endanger Soviet interests. [REDACTED]

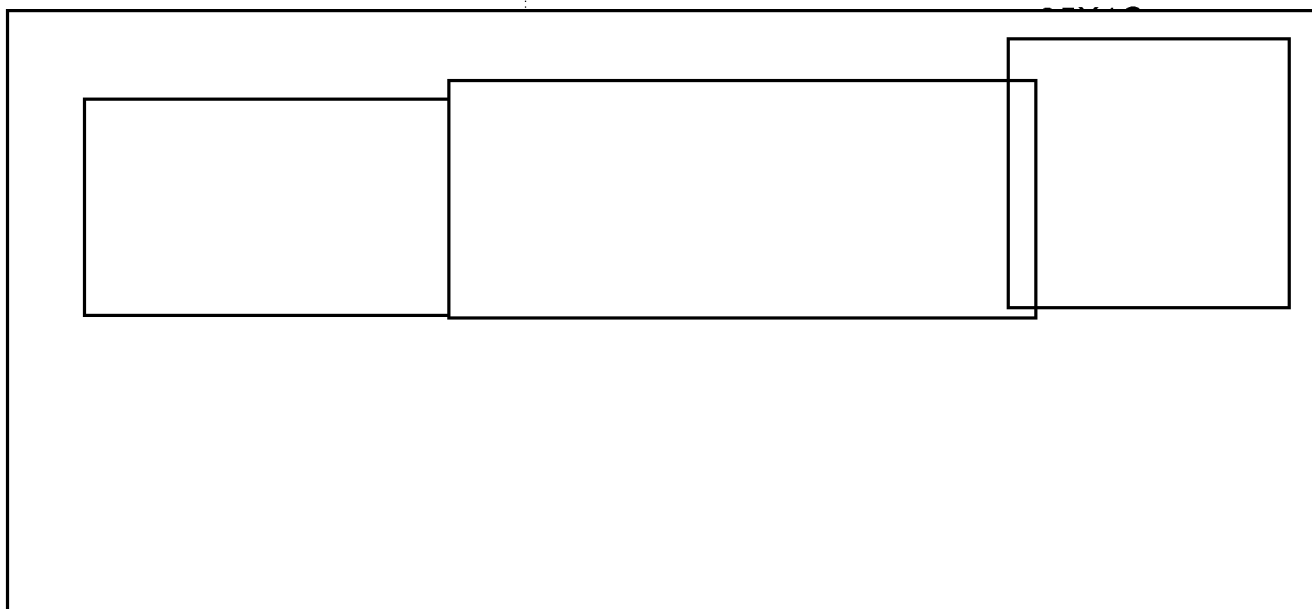
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Comment: The Soviet note is in line with previous Russian protests on the occasion of Norway's adherence to NATO in 1949. Threatening in tone, the note resembles other protests to Western nations regarding NATO or German rearmament.

Although the note does not refer specifically to current US negotiations with Norway for operating rights at Norwegian air and naval installations, its contents and timing suggest Soviet awareness of such negotiations. Specific mention of Spitsbergen in the note at this time may foreshadow renewed Soviet interest in the islands, which has been latent since 1947 when Soviet attempts to negotiate a treaty for joint Soviet-Norwegian defense of the area failed.

Charges of Norwegian violation and assurances to the USSR may somewhat prolong these negotiations or delay subsequent ratification by Norway's parliament. The Norwegian Government has consistently refused, however, to be deterred by Soviet maneuvers.

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TOP SECRET

TOP SECRET

4. POLAND. Communist Party outlines its economic policy: Hilary Minc, Poland's outstanding economic planner, in a speech on 9 October, outlined the views of the Communist Party on the policy to be pursued in view of the present economic difficulties. According to Minc, Poland's economic troubles stem from the rapid industrialization of the country with a concomitant increase in the non-food producing urban population. In contrast, agricultural production has not increased at a proportionate rate because of the lack of agricultural collectivization which "would increase food production at the necessary tempo."

Minc rejects the alternatives of slowing down industrialization or increasing the rate of collectivization in order to overcome the problem. Instead, he states that Polish economic development will be faced by the "phenomenon" of disproportionate production for some time and that Polish policy will be limited to measures designed to ameliorate the present consequences of the "phenomenon." Specifically he announced that the government will wage a campaign to see that all commodity and financial agreements are fulfilled. [REDACTED]

Comment: Food shortages have been a continuing problem in Poland since late last spring. Their effect upon the productiveness of the industrial population did not begin to show until the middle of this summer. Both developments have repeatedly been reported [REDACTED] Minc's explanation is an authoritative analysis of the situation within the framework of Communist doctrine and is probably the real explanation of the economic problems that Poland now faces.

5. TRIESTE. Independent parties may withdraw from Communal Council: The non-Communist political parties which favor an independent Trieste, are considering withdrawing their representatives from the Trieste Communal Council which was elected in 1949 for two years, on the grounds that its continuation in office is illegal. The pro-Tito party and the Cominform party may also withdraw. Further, there are rumors that small pro-Italian parties are contemplating a similar move because of their objections to the domination

TOP SECRET

17 Oct 51

of the Council by the Christian Democrats. [REDACTED]

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Comment: Even if all the independent parties should withdraw, the administration of Trieste would not be seriously hampered, since the Christian Democratic Party would retain a quorum in the Communal Council. Withdrawal of the parties, however, would be embarrassing to the Allied Military Government as it would be a positive demonstration of the independent parties' disapproval of the election postponement.

6. YUGOSLAVIA. Chief of Staff concerned over West's strategic plans: In a conversation with General Collins, Chief of Staff Popovic expressed concern over the apparent desire of the West that Yugoslavia concentrate on holding the Ljubljana gap in the north and the Vardar gap in the south in case of a general conflict. He stated that the Yugoslav Government, for political as well as strategic reasons, must defend all parts of its national territory with equal vigor. Popovic described as unwarranted the fear that the Yugoslav army would quickly withdraw to the Bosnian mountains, exposing the Allied flanks, but, he added, neither could the Yugoslav army expose its own center by the concentration of its troops on these flanks.

Ambassador Allen reports a statement by Tito that outstanding differences on the military aid agreement were minor and could easily be solved. Tito based his plea for military assistance on the view that if any attack on Yugoslavia were prolonged, the conflict would probably expand into a general war, whereas a quick Yugoslav repulse of the Satellites would lessen this danger. [REDACTED]

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8. Peasant intransigence continues to plague Tito regime: Evidence of increasing peasant resistance to the government's agrarian policies is revealed by sharp denunciations in the press and by reports of widespread failures to fulfill winter sowing plans.

TOP SECRET

17 Oct 51

Peasants who are trying to leave the collective farms are being denounced in classical Soviet terms as "Fascists, wreckers, saboteurs and enemies." In addition, newspapers have reported the jailing of collective farm managers for maladministration and sabotage. An important Zagreb newspaper reports that only 10 percent of the winter wheat sowing plan has been carried out in Croatia. [REDACTED]

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25X1 [REDACTED]

Comment: Intensified peasant resistance, which was first noted on a wide scale during the harvesting season in July and August, has continued up to the present time. The peasants evidently feel that sabotaging the agrarian program will bring eventual relief. The regime, which is committed to a program of collectivization, will probably be forced to rely on an increasing employment of coercion even though the consequence will be an immediate decrease in grain production.

9. Industrialization chief economic goal: In a recent speech Boris Kidric, Chairman of the Economic Council, listed four principal economic objectives of the Yugoslav Government:

- (1) the completion of key investment projects: electric power, steel and textile industries, and the mining of coal and non-ferrous metals;
- (2) strengthening the national defense;
- (3) stabilization of the domestic economy; and
- (4) decentralization of power to the individual enterprises presumably dominated by Workers' Councils.

In addition, Kidric predicted that the completion of key industrial projects would eliminate the current deficit in the foreign trade balance, but warned that the deficit for 1951-52 would exceed the previously anticipated 120 million dollars.

The US Embassy in Belgrade notes that the emphasis throughout the speech was on the concentration of all resources to complete key projects, while a raise in the standard of living was promised for the future. [REDACTED]

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25X1 [REDACTED]

Comment: It is interesting to note that Kidric's speech gives first priority to the economic development of basic industries and relegates defense needs and an improvement of living standards to second and third priorities. The speech reflects a continued reliance upon the doctrine that only through industrialization can Yugoslavia hope to maintain its independence and achieve "true socialism." Kidric's reference to the possibility that Yugoslavia's 1951-52 deficit may exceed \$120,000,000 may be a warning that aid in excess of the \$125,000,000 anticipated will be requested from the West.

TOP SECRET

17 Oct 51

TOP SECRET

SECTION 2 EASTERN

1. SYRIA/JORDAN. Initial Syrian and Jordanian reaction to Middle East Command: The Prime Minister of Jordan and the Syrian Chief of Staff both expressed considerable interest in the proposed Allied Middle East Command when US diplomatic representatives in Amman and Damascus explained the details of the plan. Both officials voiced the hope that their respective countries might participate in the Middle East defense organization. [REDACTED]

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25X1 [REDACTED]

Comment: None of the Arab States except Egypt was to be a founding member of the Middle East defense organization. The private views of these two influential Arab officials reflect the initially favorable reaction which many Arab leaders felt toward the Middle East Command proposals. It is clear, however, that the official attitude of the various Arab governments will be tempered by subsequent events in Egypt, where nationalistic demonstrations have followed Egypt's abrogation of the 1936 Anglo-Egyptian Treaty and summary rejection of the Western-proposed Middle East defense plan.

2. BURMA. Burmese admit BCP concentrations along China border: A 15 September press report from Rangoon states that a "strong Burmese army motorized column" has been dispatched to the northeastern frontier, where Burmese Communist insurgents have established well-protected overland routes into China. The report states that while there is no evidence of the Chinese aiding the Burmese Communists, the latter have established supply dumps in the border area. The dispatch admits, however, that a large number of Burmese youths are believed to be receiving military training in Yunnan. [REDACTED]

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Comment: This information is strongly supported by reports from other sources. It may even be an unofficial Burmese Government release, since the contents are strikingly similar to information confidentially divulged by various Burmese political and military leaders. If this is true, it would be a marked departure from Burmese complacency toward the threat of Communist China.

3. Parliament passes bill for Karen State: The Burmese Parliament recently passed a bill for the establishment of a Karen State in the poor and mountainous Salween District of eastern Burma. Under its own terms the bill will not be fully implemented for four years. The US Embassy in Rangoon comments that although the Karens in Salween may accept such a state, it certainly will not please the Karens of western Burma and is likely to drive many of them into the Communist camp. [REDACTED]

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25X1 [REDACTED]

TOP SECRET

TOP SECRET

Comment: The available scraps of information on this matter indicate that the Karens are to be given even less than they are promised in the Burmese constitution. Apparently the bill calls for the nullification of the constitutional provision for proportional representation on ethnic lines after the Karen State is established. Only a small fraction of the Karen population lives in the Salween District, and the Karens living in the Irrawaddy Delta and in Tennasserim will not voluntarily move, especially since there would be no outlet to the sea. The vast majority of Karens will reject this bill, but it is an exaggeration to say that it will drive them into the Communist camp, as the Karens have never expected the present Parliament to give them any better consideration.

4. BURMA/INDIA. Prime Minister to seek military assistance: A press dispatch from Rangoon states that Prime Minister Thakin Nu will attempt to obtain military supplies from India during his forthcoming visit with Nehru.

Comment: [redacted] Nu's trip to New Delhi was motivated, to a considerable degree, by a desire to discuss Burma's deteriorating internal security situation with Nehru. The prospects for receiving any substantial amount of military assistance from India are not bright.

5. MALAYA. American observer reports lack of success against guerrillas: An officer of the US Army who recently visited Singapore received the impression that the British are not succeeding in reducing guerrilla activity in Malaya and are generally pessimistic. [redacted]

Comment: This impression is accurate. The eradication of guerrilla activity in Malaya can be accomplished only with the gradual development among Malaysians of a sense of nationalism and an awareness of Communist aims.

6. THAILAND. Both Phibun and Phao accused of instigating June coup attempt: The US Naval Attache in Bangkok has been informed [redacted] that the abortive coup in June was a premature execution of a plot designed by Premier Phibun to depose his principal police and military lieutenants. If this is true, the Attache points out, then Phibun's position is more precarious than is generally realized.

The Embassy, commenting on this report, reveals that it is commonly believed in Thai naval circles that the ambitious Director of Police Phao Sriyanon covertly stimulated the coup as a means of destroying the navy. He is said to have attempted this by promising army and police support to the navy coup group and then doubled-crossing it at the last moment.

TOP SECRET

17 Oct 51

TOP SECRET

Comment: While there may be some correlation between the two versions reported above, neither is supported by convincing evidence. The best explanation of the attempted coup is that it was exactly what it appeared to be--an effort by disgruntled naval elements to overthrow the Phibun regime.

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7. Phao's political machine commences operations: The son of the Thai Army commander-in-chief, who is also Police Director Phao's brother-in-law, has appointed an agent to select outstanding persons to run for Parliament from Chiangmai (an important north Thailand city) on the pro-Phao Kasikamakorn Party ticket. The US Embassy states that this is the first concrete example of the operations of Phao's provincial political machine, which may be expected to accelerate its activities as general elections approach.

Comment: Phao's ambitions are widely reported as unlimited. To date, his chief weakness has been the lack of political support to supplement his influence with the army and police. Should he obtain considerable support as a result of the elections to be held in 1952, he would become a much more formidable threat to Premier Phibun than he is now.

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8. Chinese Communists protest closure of school in Bangkok: On 12 and 13 October the Chinese Communist press in Peiping protested the closing of a Chinese school in Bangkok. The Thai are charged with following the US policy of "preparing for war" and of "stifling" overseas Chinese education. Such persecution, it is alleged, is intolerable to all Chinese, and it is "demanded" that the order closing the school be withdrawn.

Comment: This diatribe is in line with the periodic Chinese Communist attacks on the Phibun government and its pro-Western policies.

9. Chinese Chamber of Commerce split: The question of whether or not to observe 10 October as a holiday seriously split the Chinese Chamber of Commerce in Bangkok. As a result, the struggle between the pro-Communist and pro-Nationalist factions of the Chinese community is more open than ever, as the Chamber of Commerce is the most important single Chinese organization in Thailand.

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10. Pridi still implicated in regicide: The Prosecution Department of the Thai Government has announced that there is still enough evidence against Pridi Banomyang in the Thai regicide case to warrant prosecution should he ever be apprehended. The Department also appealed the recent

TOP SECRET

17 Oct 51

TOP SECRET

25X1 acquittal of two defendants in the same case. The US Embassy in Bangkok believes that both of these incidents offer further proof that the Thai Government has no intention of closing the case or of exonerating Pridi even by implication. [REDACTED]

- 25X1 11. Smaller rice exports for 1952 forecast: The US Embassy in Bangkok estimates, on the basis of official Thai agricultural reports, that rice exports from Thailand in 1952 will be 50,000 tons less than they were in 1951. [REDACTED]

Comment: Despite this anticipated drop in exports, Thailand will continue to be the world's leading source of rice in 1952, as Burma's exports are also expected to decrease. While total world availability of grain will not be seriously affected by these losses of rice exports, the failure of Burma and Thailand to increase their production of rice will continue to aggravate the food problems of free Asia.

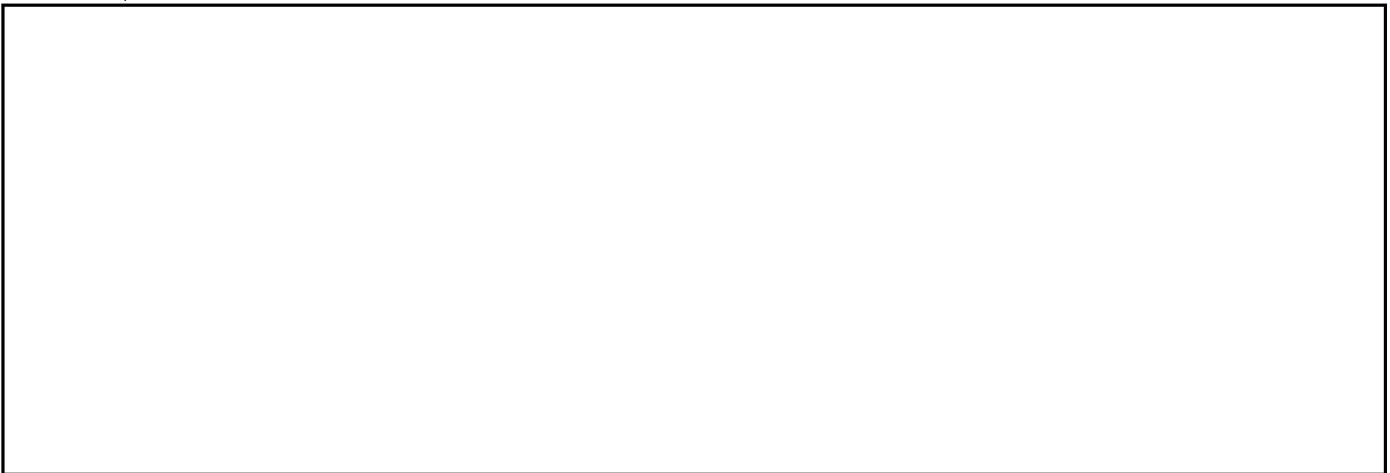
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TOP SECRET

17 Oct 51

TOP SECRET

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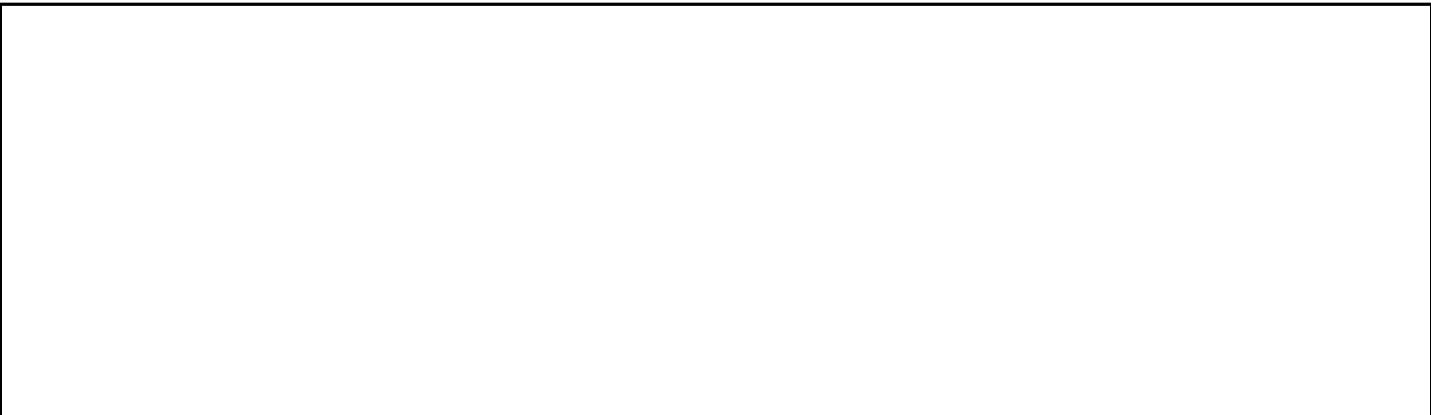
14. Chinese Nationalists will accept US recommendations on budget: The Economic Stabilization Board, on which US officials are represented as observers, will review the Chinese Nationalist budget prior to approval, according to a proposal made by the Nationalists to the US Embassy in Taipei. The Economic Stabilization Board will make recommendations on both military and civilian sections of the budget.

As a further opportunity for the US to review the budget, the Nationalists propose that its military sections be prepared in consultation with the Military Assistance Advisory Group before it is submitted to the Board. The Nationalists also propose to submit regular statements of current expenditures and receipts to the Board.

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Comment: This is a partial surrender of sovereignty which the Chinese Nationalists have found hard to accept, but the continuing financial solvency of the Nationalist Government is being assured only by US aid. To ensure the efficient use of aid funds, the US has sought effective control by American officials over Nationalist expenditures.

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TOP SECRET

17 Oct 51

TOP SECRET

16. Chinese Communists threaten to shell commercial vessels: The Chinese Communists have announced that all commercial vessels sailing their waters without permission will be shelled by shore batteries without warning; captured vessels will be confiscated, and all crew members will be imprisoned for a minimum of three years. The Communists will not accept excuses that the vessels were forced off course by inclement weather. [REDACTED] 25X1

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[REDACTED]
Comment: This order would apply primarily to vessels which frequently cross Chinese waters en route to Hong Kong and Macao. Communist shore batteries in the Pearl River delta have already shelled several Western-flag vessels, and the seizure of Okinawan junks has been reported.

Construction of military installations in the area may account for the sensitivity to the unauthorized approach of commercial vessels. [REDACTED] 25X1

17. French official at Shanghai believes Peiping desires cease-fire in Korea: The French Consul-General at Shanghai reported the "ill-concealed desire" of the Chinese Communist press in Shanghai for a resumption of cease-fire negotiations in Korea, and noted an "implied concern" over the breakdown of the talks. The French official cited, as a "possible indication" of Peiping's expectation of an agreement in the talks, a reported "upsurge" of economic "efforts" in Shanghai and in Tientsin. [REDACTED] 25X1

Comment: It is questionable that the Shanghai press would take an independent line on a major matter; the Peiping press, as presented by Peiping radio, has not indicated such a "desire" except on Communist terms or such a "concern" except for a possible relaxation of Chinese vigilance. The unspecified "upsurge" of economic activity could as well be an indication of an expectation of continued hostilities as of a peaceful settlement.

18. KOREA. UN fighter pilots' observations of enemy jet aircraft: During the course of an encounter between 80 MIG-15's and 32 F-86's in the Sinuiju-Sinanju area on the afternoon of 12 October, UN pilots observed the following:

- (1) One enemy aircraft in a flight was "a shoulder wing type and was believed to be a Type-15." The UN aircraft passed within 100 feet of the enemy plane and observed the figure "1" but no other markings.
- (2) A MIG pilot was "wearing a dark colored, close fitting helmet. The enemy pilot also wore an oxygen mask but no goggles, and appeared

TOP SECRET

TOP SECRET

to be light complexioned."

[REDACTED]

Comment: While still not confirmed, it is entirely possible that the enemy is employing the Type-15 for combat testing purposes and is attempting to conceal its presence among the more familiar MIG-15's.

It would appear difficult to detect the coloration of an enemy pilot under conditions of high-speed jet combat. It is probable, however, that Soviet personnel are piloting some of the enemy jet aircraft encountered in Korea.

19. Enemy artillery fire direction given in Russian language: On 13 and 14 October, radioed enemy artillery fire directions and corrections given in the Russian language were received on a UN divisional radio set. Although the reception of the enemy's transmission was poor, a competent UN Russian linguist was able to make out references to the "31st zone, the 34th zone and height." [REDACTED]

Comment: This is the first known instance of Russian language voice transmission being received on UN ground radio sets. While Soviet military personnel have been frequently reported previously as serving antiaircraft artillery in North Korean rear areas, this transmission would seem to confirm the presence of Soviet military personnel in some ground combat role.

It cannot be established from the limited material available whether field or antiaircraft artillery fire was being directed and corrected by this voice transmission. The word "height" could apply either to altitude in the case of antiaircraft artillery or to elevation in the case of field artillery. Similarly, area designators, such as "zones, sectors, or grids," are common to both field artillery fire direction and to an integrated early-warning antiaircraft defense system.

20. ROK takes action to relieve housing shortage in South Korea: On 14 October the ROK Minister of Social Welfare announced that, in view of excesses committed by landlords, refugees would now be allowed free lodging in any living space they can locate. [REDACTED]

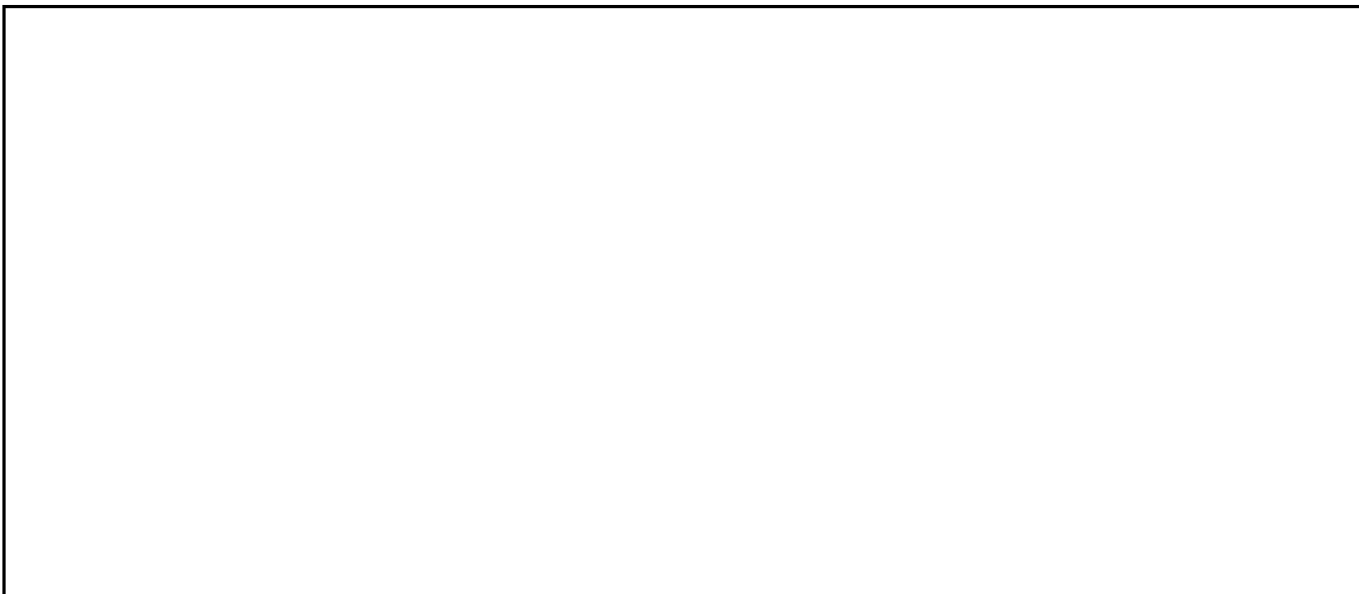
Comment: The acute housing shortage in both rural and urban areas of South Korea has further worsened the lot of the estimated four million refugees in the southern provinces (the Chollas and the Kyongsangs). Landlord excesses, such as charging exorbitant rents and turning refugees out for non-payment, have forced the ROK Government into this corrective action.

TOP SECRET

TOP SECRET

SECTION 3 (WESTERN)

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2. FRANCE. Foreign Office official suggests Big Three act together on Moscow economic conference: A French Foreign Office official, discussing the Soviet-inspired economic conference now scheduled to be held in Moscow during December, expressed his informal opinion that the US, the UK and France should either agree publicly to call this a Soviet political maneuver and discourage acceptance, or else encourage the attendance of "courageous individuals who will speak out." An international initiating committee is currently in session, or about to meet, in Zurich to plan the agenda.

The French Government has so far "discreetly discouraged" those French industrialists, technicians, trade unionists, and public officials who have been invited to the conference.

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Comment: The French have recently shown a growing reliance upon concerted action among the Big Three on all major international issues. Nonetheless, during the past year they have repeatedly shown interest in resuming East-West trade relations and have recently been placing increasing emphasis on France's need for additional imports from the Orbit. Bilateral French-Soviet trade discussions are now in progress, and the French are probably loath to turn down any opportunity to expand East-West trade, even though the prospective conference will not be governmental and may be exploited as a Communist propaganda forum.

3. French refuse Italians' plea for help in gaining UN membership: France has refused to sponsor UN membership for Italy by a direct proposal

TOP SECRET

TOP SECRET

in the General Assembly. The French Foreign Office told the Italians that its refusal was based on the difficulties in circumventing the Security Council, and advised them to apply once more to that body "to see whether the Soviets will continue to follow the same tactics and argumentation in vetoing admission." [REDACTED]

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Comment: While the French would undoubtedly welcome a test in the Security Council, their refusal to assist the Italians at this time is probably due chiefly to their reluctance to take the lead in any Western move which might antagonize the USSR.

4. FRANCE-BELGIUM. French consider closing their consulates in Communist China; Belgians are closing theirs: According to a French Foreign Office spokesman, France is considering closing its consular offices at both Shanghai and Tientsin, as a result of reports from the French Consulate General now in Hong Kong that the Chinese Communists have been attempting "to provoke an incident involving him and his staff at Shanghai." If the French close these consulates, their only diplomatic post in China would be the French Embassy at Peiping.

The French spokesman added that, according to the Belgian Embassy at Paris, the Belgian Government is closing all its consular offices in China and recalling its personnel. [REDACTED]

25X1

Comment: Communist China has already taken over most of France's consular property. In the past, France has refrained from protesting similar provocative incidents or indignities to its nationals in order to obviate any excuse by the Chinese to invade Indochina.

Belgium's interests in the Far East are limited. One of its few consular offices in China was closed during the summer.

5. AUSTRIA. Impending strike in US-sponsored network and newspaper called off: The President of the Austrian Federation of Trade Unions assured High Commissioner Donnelly on 15 October that the threatened strike of Austrian employees in the US-sponsored Red-White-Red network and the Wiener Kurier will be avoided. The strike threat was withdrawn after the High Commission re-instated three employees previously dismissed, and appointed a committee to consider the adaptation of Austrian labor procedures to US employment conditions in Austria. [REDACTED]

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Comment: Amicable settlement of the labor dispute removes a serious embarrassment to the US occupation authorities in Austria. The immediate cause of the dispute was the American suspension of three employees who objected to a questionnaire which asked for the employee's race and his

TOP SECRET

TOP SECRET

attitude toward the forceful overthrow of the US Government. Shop stewards had previously voted not to sign the questionnaires. There has, however, been a long-standing dispute between US authorities and the employees on the introduction of the so-called "USCOA schedule" which, while increasing wages by 50 percent, would deprive Austrian employees of certain protections under Austrian labor legislation. The US attitude in the controversy was strongly criticized by a leading People's Party newspaper and was widely exploited by the Communists.

- 25X1 6. NETHERLANDS. Dutch refuse to stop transshipments of chemical presumably destined for Communist China: US shipments of hydrosulphite, a bleaching agent used in textile production, to the Netherlands are being re-exported to Hong Kong, presumably for Communist China. A Dutch Foreign Office spokesman informed the US Embassy that the hydrosulphite was licensed by the Netherlands Bank for sale in Hong Kong before it had left the US. He added that the Netherlands would do nothing to stop these shipments; he suggested that the US either propose that hydrosulphite be included on the Coordinating Committee list, or make end-use checks prior to granting export licenses. The Embassy is also concerned over the Dutch failure to stop the shipments inasmuch as the commodity is in short supply in the Netherlands. [REDACTED]

Comment: The Dutch have adhered to Coordinating Committee restrictions, and have also maintained that controls over strategic commodities should be exercised by the originating country rather than by an intermediary handling the transfer. The Netherlands Government has the power to requisition strategic commodities, where such action is necessary as a last resort, unless the title has already passed to another country.

- 25X1 7. Dutch press criticizes US "blacklisting" of forwarding concern: Initial Dutch press reaction to the US "blacklisting" of Van Udens, a Dutch forwarding firm with headquarters at Rotterdam, has been unfavorable. The Netherlands Government, however, has taken a neutral position, and trade officials generally seem pleased. However, a few local officials are concerned over the effect the US action will have on Rotterdam's reputation as a port. Opinion is divided on the effect it will have on other forwarding agents and the future use of Rotterdam as a transit point. US consular officials believe, however, that the US order will discourage "expansion of diversionary activities" among the firms at this port. [REDACTED]

Comment: In January 1951 an official of Van Udens was reported as pro-Communist and systematically engaged in diverting shipments of strategic commodities to the Orbit.

TOP SECRET

TOP SECRET

The US action will undoubtedly add to Dutch irritation over what they regard as US economic interference.

8. ITALY. Non-Communist Press denounces Soviet reply on peace treaty revision: The non-Communist press has reacted strongly to the Soviet note to the Western powers regarding revision of the Italian Peace Treaty. Both conservative and moderate leftist papers call the reply "absurd," "un-acceptable," and "blackmail." The conservative Tempo as well as the semi-official government organ Messaggero affirm that Italy will never abandon the Atlantic Pact. Press comment also points out that the note is actually another Soviet veto of Italian membership in the UN. [REDACTED] 25X1

Comment: The tenor of the press comment suggests that many non-Communists, including democratic Socialist elements and members of the Christian Democratic left wing, are becoming increasingly disenchanted with the blandishments of Soviet peace propaganda. On the other hand, there are non-Communists who will continue, as ex-Premiers Orlando and Nitti have done in the past, to advocate Italy's withdrawal from the NATO should the Western powers fail to consider its interests adequately.

9. Italian Ambassador to Moscow believes Soviet note on treaty aimed to bolster Italian Communists: The Italian Ambassador to Moscow, whose opinions are highly regarded by the US Embassy, feels that the Soviet note imposing conditions for revision of the Italian Peace Treaty of 1947 is "largely a question of polemics with the Italian Communist Party in mind." The US Embassy agrees that the note appears to have been drafted with Italian internal conditions in mind. The USSR feels its position "rather weak re the Italian people in general and the Italian Communist Party in particular." While the USSR is restricting development of the national aspirations of the Italian people, it must at the same time not "pull the rug out from under" the Italian Communist Party.

Following publication of the Soviet note, the Italian Communist paper Unita carried an article explaining that the Soviet Union demands only that Italy be independent and "pacific." In this connection, the Communist Party militants are privately complaining that the Berlin "Peace" Appeal is not going well. [REDACTED] 25X1

Comment: The Soviet note strengthens the appeal of the Italian Communist peace campaign for nationalist elements who want an armed but neutral Italy with international parity. It does not, however, lessen the support of the majority of Italians for the Government's pro-Western policy.

TOP SECRET

TOP SECRET

10. Parliamentary vote on foreign policy shows strong appeal of Communist "peace" propaganda: The Chamber of Deputies concluded its debate on the government's foreign policy with a vote of confidence for Premier de Gasperi, rejecting a Communist-sponsored motion assailing "the new political and military pledges resulting from the Ottawa conference" with a 322-to-157 vote. However, a motion which did not openly criticize the government's policies but called for a relaxation of international tension and for East-West "discussions" was defeated by a margin of only 265-197. The US Embassy in Rome believes the switch of votes reflects (1) "wooly-headed" thinking on Communism, (2) confusing effects of Communist peace propaganda, and (3) fear that rearmament may "provoke" the USSR and may be progressing too fast in relation to government expenditures for social reform. Embassy officials also stress that the cumulative effects of the Communist peace campaign must not be underestimated, and state that the government is making plans to recapture the peace theme. [REDACTED]

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Comment: The smaller margin in the voting on the second motion reflects the thinking of a substantial neutralist segment of the population which believes that a rapprochement is possible between the US and the USSR, and that Italy should act as a bridge to bring the two powers together. Supporters of this view have been one of the main targets of the Communist peace propaganda campaign.

11. SPAIN. Spanish demand special concessions from US in wolfram negotiations: The US Embassy in Madrid reports that in return for a long-term contract to supply the US Spanish wolfram, the Spanish Government will offer no price concessions and has introduced quid pro quo's "which are extraneous to the subject matter under negotiation." Specifically, the Spanish negotiations have demanded adequate assurance of equitable treatment for Spain in the distribution of US goods in short supply and favorable action on a Spanish request for a three-year 25-million-dollar cotton credit to be submitted to the Export-Import Bank. The US Embassy has informed the Spanish Government that the US would probably not be receptive to these demands. [REDACTED]

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Comment: Past statements by Spanish officials have indicated that the government has expected all along to receive assurances regarding supplies of US goods in short supply in return for any Spanish agreement to supply the US with strategic raw materials. Large cotton credits are considered essential in order to destroy the black market in cotton and to weaken the black market in pesetas. These credits would have to come from the Export-Import Bank's revolving cotton credits funds, and the Bank opposes granting them because it feels that Spain's economic position would be weakened rather than strengthened thereby.

TOP SECRET

TOP SECRET

12. SWEDEN. Relations with Poland deteriorate further: The US Embassy at Stockholm reports that Swedish-Polish relations are deteriorating. Sweden has had a steady influx of Polish refugees, and Polish protests against Swedish asylum have become more vitriolic. Swedish authorities suspect that the influx of refugees includes a number of spies and Communist agents. The Swedish Seamen's Union has warned its members against going ashore in Poland following the outrageous treatment of Swedish seamen there. [REDACTED]

Comment: Swedish authorities have recently displayed a sterner and more vigorous attitude towards Poland and Polish merchant marine personnel, and have undoubtedly irritated the Polish Government. There is good reason to believe that among the refugees there are secret agents for Communist activity against the Polish refugee groups.

13. ARGENTINA. Peronistas celebrate Loyalty Day in tense atmosphere: The Minister of the Army has announced that the armed forces will participate in the Loyalty Day celebrations, during which the General Confederation of Labor will present medals to 60 army officers for loyalty during the 28 September revolt. Participation by the armed forces in these celebrations is a new development, which may be designed to demonstrate labor-army unity and provide an additional attraction for the populace. [REDACTED]

Comment: Loyalty Day, 17 October, is the most important Peronista-created holiday and this year has been planned as a high point in the election campaign. Special features on the program include the introduction of television in Argentina and the formal presentation to the workers of the expropriated newspaper La Prensa, which the General Confederation of Labor will begin publishing on 18 October. A special medal will be presented to Senora de Peron, to whom this year's celebrations are dedicated because of her "great self-sacrifice" in declining the nomination for vice-president. There have been unconfirmed reports that the workers may again demand that she run for vice-president, although this would be completely illegal if the elections are held as scheduled on 11 November. Whether or not this inflammable issue is reopened, general political tension has created an atmosphere in which at least minor disturbances could be provoked.

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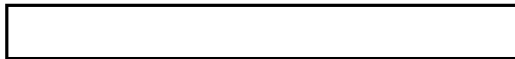
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SECTION 2 (EASTERN)

1. AUSTRALIA. Government wants direct expression of US views pertaining to Egypt crisis: A high government official informally told the US Embassy in Canberra that, in view of the Egyptian crisis, his government would like to receive an "independent expression" of the US attitude regarding negotiations for a Middle East Command, rather than only the British interpretation of that attitude.

[REDACTED]

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Comment: The Australian Government has long been aware that it must depend upon close cooperation with the US for its continental defense. This report indicates increased Australian concern that close cooperation with the UK alone is not sufficient to guarantee the security of Australian interests in the Middle East.

2. JAPAN. US moves toward settlement of security treaty and future of Ryukyus: Top-level consideration is now being given to the appointment of a senior Department of State officer to work exclusively on the administrative details of the US-Japan security pact, to the designation of a Presidential committee of three members to make recommendations on the Ryukyus settlement, and to the constitution of a Joint Congressional Advisory Committee to work with the latter. The Department feels that announcement of these arrangements might have a favorable effect on the debate now going on in the Japanese Diet over ratification of the peace and security treaties by showing that the US is prepared to move promptly on these matters; on the other hand, it might induce some elements in the Diet to ask postponement of ratification of the two treaties pending the outcome of the negotiations. The Department has therefore requested the comments of the US Political Adviser in Tokyo, General Ridgway and Prime Minister Yoshida relative to the advisability of making public announcement of these intentions.

[REDACTED]

Comment: The Japanese Government is being criticized by the Opposition on these two aspects of the treaties, and a US announcement would support the government's contentions that the administrative details of the security pact have not yet been worked out, and that the Ryukyus are not permanently lost to the Japanese.

SECTION 3 (WESTERN)

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